

Message Text

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ACTION ARA-10

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FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC 9153

C O N F I D E N T I A L GEORGETOWN 1827

LIMDIS

E.O. 11652: GDS

TAGS: EMIN EIND PFOR GY

SUBJECT: TALKS WITH REYNOLDS IN OFFING

REF: (A) GEORGETOWN 811 (B) GEORGETOWN 841 (C) GEORGETOWN 1354

SUMMARY: INDICATIONS ARE THAT PRIME MINISTER BURNHAM INTENDS TO MAKE GOOD ON HIS PUBLIC PROMISES TO OPEN DISCUSSIONS ON MEANINGFUL PARTICIPATION IN REYNOLDS GUYANA MINES BEFORE END OF YEAR. END SUMMARY.

1. OVER LAST FEW DAYS, IN CONVERSATIONS WITH LOCAL REYNOLDS MANAGER, GUYANA'S MINISTER OF ENERGY AND NATURAL RESOURCES, HUBERT O. JACK, HAS REEMPHASIZED AND REEXPOUNDED GUYANA'S POLICY WITH RESPECT TO BAUXITE, VIZ MEANINGFUL PARTICIPATION (MINIMUM OF 51 PERCENT EQUITY) AND CONTROL OF MANAGEMENT. TOLD REYNOLDS MANAGER WOULD BE SENDING HIM LETTER TODAY (FRIDAY, DEC 14) INVITING INITIATION BEFORE END OF YEAR OF FORMAL TALKS DESIGNED FIT REYNOLDS OPERATION INTO NATIONAL POLICY. (LETTER NOT YET RECEIVED BY REYNOLDS.)

2. AS EMB HAS REPORTED MORE THAN ONCE, BURNHAM HAS SAID REPEATEDLY THAT TALKS WITH REYNOLDS WOULD BE INITIATED BEFORE END OF YEAR. WE HAVE ALSO NOTED ON NUMEROUS OCCASIONS THAT BURNHAM DOES WHAT HE SAYS HE WILL DO.

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3. IN DECEMBER 10 BUDGET SPEECH MINISTER OF FINANCE

FRANKLIN HOPE SIGNALLED THAT SOMETHING MIGHT BE IN WIND VIS A VIS REYNOLDS. HE NOTED WEAKENESS OF WORLD MARKETS FOR ALUMINUM, PRAISED GUYBAU(FORMER ALCAN SUBSIDIARY DEMBA WHICH WAS NATIONALIZED) FOR ITS ABILITY MAINTAIN "REASONABLY HIGH AND DIVERSIFIED OUTPUT" AND ATTRIBUTED DECLINE IN BAUXITE EXPORTS DIRECTLY TO REYNOLDS. "THE FACT THAT DRIED BAUXITE OUTPUT AND EXPORTS DECLINED WAS DUE IN LARGE MEASURE TO A DRASTIC CUT BACK IN PRODUCTION BY THE REYNOLDS COMPANY-- WHICH IS STILL OWNED AND CONTROLLED BY A MULTI-NATIONAL CORPORATION." LATER ON IN SPEECH, WHILE DISCUSSING PROSPECTS FOR ECONOMY IN 1974, MINISTER SAID WITH RESPECT TO BAUXITE THAT "THE REAL QUESTION MARK LIES BEHIND THE INTENTIONS OF REYNOLDS METALS COMPANY IN TERMS OF THAT COMPANY'S LEVEL OF OUTPUT IN 1974. IN FACT, WHILE THIS SECTION OF THE INDUSTRY CONTINUES IN FOREIGN HANDS IT WOULD REMAIN A MATTER OF SOME DIFFICULTY TO ENSURE THAT THE BAUXITE INDUSTRY AS A WHOLE MAXIMISES ITS PRODUCTION AND ITS CONTRIBUTION TO THE ECONOMY OF GUYANA, GIVEN THE PRESENT CONDITIONS OF THE ALUMINIUM MARKET." (THIS PUT GOVERNMENT'S CONCERN AND RATIONALE FOR PARTICIPATION MOST SUCCINCTLY.)

4. IN FACT, REYNOLDS PRODUCTION OF DRIED BAUXITE EQUIVALENT IN 1973 IS EXPECTED TO BE ABOUT 800,000 TONS. WHILE THIS IS ADMITTEDLY BELOW THE TARGET OF 850,000 TONS (BECAUSE OF SHIPPING PROBLEMS ON THE MISSISSIPPI ATTRIBUTABLE TO FLOODS --ALL OUTPUT OF METAL GRADE ORE HAS GONE TO REYNOLDS HURRICANE CREEK PLANT IN ARKANSAS SINCE MARCH OF THIS YEAR), IT HARDLY REPRESENTS A "DRASTIC CUT BACK" WHEN COMPARED TO 1972 OUTPUT OF 847,000 TONS OF DRIED BAUXITE EQUIVALENT. (IT IS, OF COURSE, WELL BELOW 1971 PRODUCTION.) ALSO, SINCE PRODUCTION OF CALCINED AND CHEMICAL GRADE BAUXITE HAS ACTUALLY INCREASED OVER 1972, PROFITS AND HENCE INCOME TAXES WILL BE marginally HIGHER THIS YEAR THAN LAST.

5. INFORMAL DISCUSSIONS AT ALL LEVELS HAVE SUGGESTED THAT GOG LEARNED QUITE A BIT FROM ITS NEGOTIATIONS WITH ALCAN. INITIAL DEMANDS ON REYNOLDS MAY WELL BE FAR LESS PEREMPTORY AND RIGID, AND GOVERNMENT MAY BE CONSIDERABLY MORE FLEXIBLE IN SEEKING REYNOLDS AGREEMENT TO SOME FORM OF PARTNERSHIP AND ASSURANCES ON FUTURE LEVELS OF PRODUCTION AND CAPITAL

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INVESTMENT.

6. ALSO, THERE ARE FAILURES AND OMISSIONS ON PART OF GOG WHICH UNDOUBTEDLY WILL COME OUT IN IMMINENT TALKS, ESPECIALLY FAILURE MAKE GOOD ON ASSURANCES OF LEASES AND EXTENSIONS WHILE REYNOLDS HAS EXPENDED CONSIDERABLE SUMS ON EXPLORATION.

7. WE WOULD HOPE DEPT WOULD NOT OVERREACT FOR NOW AND THAT IT WOULD ENCOURAGE REYNOLDS TO "TAKE AN IMAGINATIVE AND FORTHCOMING APPROACH" AS PROVIDED IN THE CURRENT CASP. NATIONALIZATION HAS NOT BEEN PROPOSED AND IS NOT NECESSARILY INEVITABLE, PROVIDED THE COMPANY PROVES WILLING SINCERELY TO EXPLORE ALTERNATIVES TO TYPE OF OPERATIONS WHICH FEW DEVELOPING COUNTRIES OF THIRD WORLD ANY LONGER WILLING TO TOLERATE.

8. IN PARTICULAR, I ASK THAT I NOT BE INSTRUCTED TO RUSH TO BURNHAM ON THIS ISSUE AT THIS STAGE. I HAVE FILLED HIM IN COMPLETELY OVER LAST THREE YEARS ON PUNITIVE US LEGISLATION WHICH COULD BE TRIGGERED WERE HE TO NATIONALIZE WITHOUT COMPENSATION (WHICH HE HAS ALWAYS SAID HE WOULD PAY), AND HE KNOWS WHAT HE IS DOING. KING

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